

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Carrier Branch**

**RESOLUTION T-16720
January 16, 2003**

R E S O L U T I O N

RESOLUTION T-16720. THE EVANS TELEPHONE COMPANY.
(U-1008-C). GENERAL RATE CASE FILING IN COMPLIANCE WITH
G. O. 96-A, PARAGRAPH VI, AND DECISION NUMBERS 01-02-018
AND 01-05-031.

BY ADVICE LETTER NO. 326 FILED DECEMBER 19, 2001.

Summary

This resolution addresses the General Rate Case filed by Evans Telephone Company (Evans) through Advice Letter (AL) 326 on December 19, 2001 in compliance with D.01-05-031. In AL 326, Evans proposes: a) no change in its rates or charges, b) an intrastate Rate of Return (ROR) of 10.00%, the same granted by T-16007 in 1997 and, c) an increase of \$160,863 in its California High Cost Fund-A (CHCF-A) draw for 2003 over its 2002 draw.

This resolution authorizes total intrastate revenue in the amount of \$8,619,826 for Evans for the test year 2003. This represents a reduction of \$3,611,119 to Evans' estimate of \$11,595,900 for total intrastate revenue for 2003. The Total Intrastate Rate Base amount for Evans is \$5,205,147 with an overall Intrastate Rate of Return of 10.00% for the test year 2003. Evans had requested a Total Intrastate Rate Base amount of \$12,756,407 for an authorized Overall Intrastate Rate of Return of 10.00%. Also authorized by this resolution is California High Cost Fund-A (CHCF-A) support for Evans for test year 2003 of \$16,199. Evans had requested CHCF-A support for 2003 of \$3,627,318.

A comparison of the Telecommunications Division (TD) and Evans' Test Year 2003 Total Company Results of Operations before any CHCF-A adjustment is attached as Appendix A. Appendix B compares TD's and Evans' Separated Results of Operations before any CHCF-A adjustment. Appendix C compares Evans' and TD's Intrastate

Results of Operations estimates for test year 2003. Appendix D shows TD's calculation of the Net-to-Gross Multiplier and the change in the gross intrastate revenue requirement based on the recommended intrastate rate of return of 10.00%. Appendix E is a copy of the adopted conditions the Commission approved in Decision No. 01-06-084 authorizing the sale of Evans to Country Road Communications in 2001.

Background

The Evans Telephone Company (Evans), a local exchange telephone utility based in Turlock, California, provides local exchange telephone service in portions of Merced, Stanislaus, Santa Clara, and Yolo Counties, serving approximately 12,500 access lines in the following exchanges and rate areas: Guinda, Patterson, Livingston, Capay, Westley, Cressey, and Grayson.

Country Road Communications filed an application on September 19, 2000 to purchase Evans Telephone Company. The Commission granted authority to purchase on June 28, 2001, in D. 01-06-084, contingent upon seven conditions as listed in Appendix E.

On December 19, 2001, Evans filed Advice Letter (AL) No. 326 in response to D.01-05-031, in which the California Public Utilities Commission (CPUC) set in motion the waterfall¹ provision in 2002 for six small LECs if they do not each file a General Rate Case (GRC) by the end of 2001.² The last GRC filed by Evans was in 1995 through AL No. 206 and its most recent intrastate results of operations was authorized by Resolution T-16007 dated April 9, 1997.

In AL 326, Evans proposes: a) no changes to its rates or charges, b) an intrastate ROR of 10.00%, the same return as granted by T-16007 in 1997, and c) an increase of \$160,863 in its CHCF-A draw for 2003 over its 2002 draw for a total of \$3,627,318.

Notice/Protests

Evans states that a copy of the Advice Letter was mailed to competing and adjacent utilities and/or other utilities. Notice of AL 326 was published in the Commission Daily Calendar of December 21, 2001. Notice of the AL filing was made to customers by bill insert on December 19, 2001. No protest to this AL filing has been received.

¹ The waterfall provision refers to the 6-year phase down of the CHCF-A funding level beginning in 1998, the year after the completion of a GRC. The funding levels are 100% of the for the first 3 years, i.e., 1998, 1999 and 2000; 80 % the fourth year, i.e., 2001, 50% the fifth year, i.e., 2002; and 0% thereafter.

² The six companies are Evans Telephone Company, Happy Valley Telephone Company, The Ponderosa Telephone Company, Sierra Telephone Company, Inc., The Siskiyou Telephone Company, and The Evans Telephone Company.

TD held a Public Meeting in Turlock on August 15, 2002, at which time Evans was given an opportunity to explain its filing to its customers and its customers were given the chance to ask questions of Evans and TD. Evans' customers were given notice of the Public Meeting through bill inserts. The notice of Public Meeting was also published in the CPUC Daily Calendar. One customer attended the Public Meeting.

Discussion

Results of Operations

Appendix A sets forth Evans' total company results of operations for test year 2003, as estimated by TD and Evans.

Operating Revenue

A comparison of TD's and Evans' estimates of total operating revenues for test year 2003 is shown in Appendix A. Evans' estimate for total company operating revenues is \$14,871,721 a difference of \$635,226 from TD's estimate of \$15,506,950. The differences between TD's and Evans' estimates are further described below.

In determining the test year Operating Revenues, TD reviewed Evans' methodology, calculations, and assumptions for the proposed test year of 2003. Evans' revenue accounts included both recurring and non-recurring basic local service revenue and recurring customer premises revenue. Evans' revenue estimates are based on a 2.24% yearly growth rate increase that Evans applies to its calculation of six-month actual and six-month annualized 2001 data to estimate revenues for 2002 and 2003. Evans arrived at its 2.24% growth rate by using year-end percent changes to its access line growth from 1996 to 2001 and taking into consideration the loss to second lines due to cellular and cable competition for the years 2002 and 2003.

Based on a regression analysis of Evans' historical average access line growth from 1996 through 2001 TD estimated the growth rate to be 5.65% over the five years. The coefficient of determination from the regression analysis, which measures the strength of the relationship between the actual historical figures and the regression line growth calculations, was 99%. A coefficient of determination closer to one (100%) indicates a greater degree of relationship. In addition, field inspection of Evans' serving areas and information on population and housing growth collected from planning officials of the cities of Patterson and Livingston, supported TD's 5.65% estimate. Therefore, TD did not accept Evans' projections for access line growth.

TD applied the 5.65% five-year growth rate increase to arrive at the 2002 and 2003 average access lines of 13,055 and 13,645, respectively. To arrive at its 2003 estimates, TD then applied the 5.65% percentage growth rate over all individual line items

for Evans' basic local service revenue, customer premises revenue, and other local exchange revenue accounts.

For Rent revenues, TD verified Evans' 2001 annual amount to be \$67,613. For its 2002 and 2003 revenues, Evans' provided estimates of \$56,179 and \$48,244, respectively. TD reviewed the years 1997-2001 and calculated the average arithmetic mean to estimate 2002 and 2003 revenues for this item. TD compared its calculations to Evans' and noted that the variance in estimates was not significant enough to justify changing Evans' estimates. Therefore, TD accepts Evans's 2003 estimates, as submitted.

For Other incidental regulated revenues, TD verified Evans' 2001 annual amount to be \$113,275. TD reviewed D. 01-02-013 which approved the Settlement Transition Agreement (STA) between Pacific Bell and Small ILECs. TD also verified that Pacific's monthly STA payments to Evans, for SS7 and 800 DB/LNP queries, ended on June 30, 2001. For its 2002 and 2003 revenues, Evans' provided estimates of \$1,792 and \$1,809, respectively. TD reviewed the supportive documentation for all remaining items encompassed in other incidental regulated revenues and accepted Evans' 2003 estimates, as submitted.

For access revenues, Intrastate - intraLATA and interLATA, Evans used a five-year average percentage rate over access minutes of use (AMOU) billings from 1995-2000 to estimate 2003 revenues for these items. Evans derived a 9.1% increase for intraLATA minutes and a 3.6% increase for interLATA minutes. However, TD did not accept Evans' projections. TD reviewed Evans' AMOU from 1996 through 2001 and compiled the historical average AMOU growth amounts for intraLATA and interLATA. TD then tested these growth amounts using regression analysis. The coefficient of determination of the regression analysis is 91% for intraLATA and 95% for interLATA. TD's calculations of the growth rate amounts and the average percentage rates for intraLATA and interLATA, for the test year 2003, indicated 5.05% and 10.35% growths, respectively. TD then applied these percentage growth rates over access minutes of use billing to arrive at its 2003 access revenue estimates.

For Federal USF support, TD verified Evans' 2001 "high cost loop fund (USAC)" annual amount to be \$468,895. To reflect the actual federal universal service fund support for 2002, TD requested that Evans provide a copy of its disbursement notices received from the National Exchange Carrier Association (NECA). The notice from NECA showed that Evans' actual 2002 "high cost loop fund (USAC)" amount as \$436,716. TD used this figure as Evans' 2002 federal USF support. For its 2003 estimate, Evans provided a copy of the 2003 USF annual compensation estimate of \$68,455, that it provided to NECA. TD verified and accepted this estimate.

Evans' CHCF-A support request for test year 2003 is \$3,627,318. TD finds reasonable Evans' estimate for this item based on present rates and conditions. However, upon TD

review of the rates and charges of services offered by Evans, TD recommends reducing Evans' 2003 CHCF-A support by \$3,611,119 to \$16,199.

For Directory revenues, TD did not accept Evans' projections for directory revenues, where no methodology was applied. TD's regression analysis found the coefficient of determination to be too low at 68%. TD calculated a five-year average percentage rate increase of 3.19% using data from 1997 to 2001 to estimate 2003 revenues for this item.

TD did not accept Evans' projections for other incidental revenues - late charges, because Evans failed to demonstrate a reasonable estimation method. TD's regression analysis found the coefficient of determination to be too low at 68%. TD calculated a five-year average percentage rate increase of 1.62% using recorded 1997 to 2001 data to estimate 2003 revenues for this item.

TD did not accept Evans' projections for uncollectibles, because Evans failed to demonstrate a reasonable estimation method. TD used the six-year average percentage rate over basic local service billings from 1996 to 2001 of 1.5% to estimate 2003 uncollectibles.

Operating Expenses

The purpose of the expense estimates is to set an expense level for ratemaking and not necessarily to estimate any particular expense or component of expense. For the expenses, the utility provided recorded expense levels for years 1996 through 2000. For 2001, Evans used a six-month recorded expense and annualized this value for the 2001 estimate. Evans then used the 2001 estimate to estimate the expenses for 2002 and 2003 by increasing it for inflation.

Since Country Road purchased Evans expense levels increased significantly, primarily in the administrative and general expense categories. In general, there was a fairly consistent historical expense level through the year 2000, prior to the acquisition, with a substantial increase in 2001. Many of the expense estimates increased by a factor of 2.5 or more from the recorded pre-2001 levels.

TD used the 2001 annual report to update the 2001 expenses to actual recorded numbers. The accounts are reported in several separate components: salaries, benefits, rent and other. These components were analyzed graphically. There seems to be no consistent relationship between salaries and benefits. TD reviewed the recorded expenses using two-year through six-year constant dollar averages and choosing the three-year average because it is more representative of average expense levels for rate setting.

TD used a constant dollar average method based on three years of recorded expenses adjusted for inflation with the inflation factors developed by the Office of Ratepayer Advocates. The labor adjustment factor was used for salaries and benefits while the non-labor factor was used for all other category components. While expenses have been increasing in nominal dollars, when one applies the constant dollar method and adjusts the recorded figures to base year constant dollars, there is less of a variance and in many cases, the inflation-adjusted figures remained relatively flat. TD used Evans' recorded expense figures as reflected in the utility's workpapers and annual reports for the years 1999, 2000 and 2001³ and then applied the inflation factors for labor and non-labor for each year.⁴

The expense accounts are separated into four general categories. These categories are Plant Specific, Plant Non-specific, Customer Operations and Corporate Operations. Within each of these there are sub-accounts that are separated into each of the components. For some components, TD's estimates were above those of Evans. However, in general the estimates were below those of Evans for the test year. TD's estimates are generally above the historical levels for the expenses.

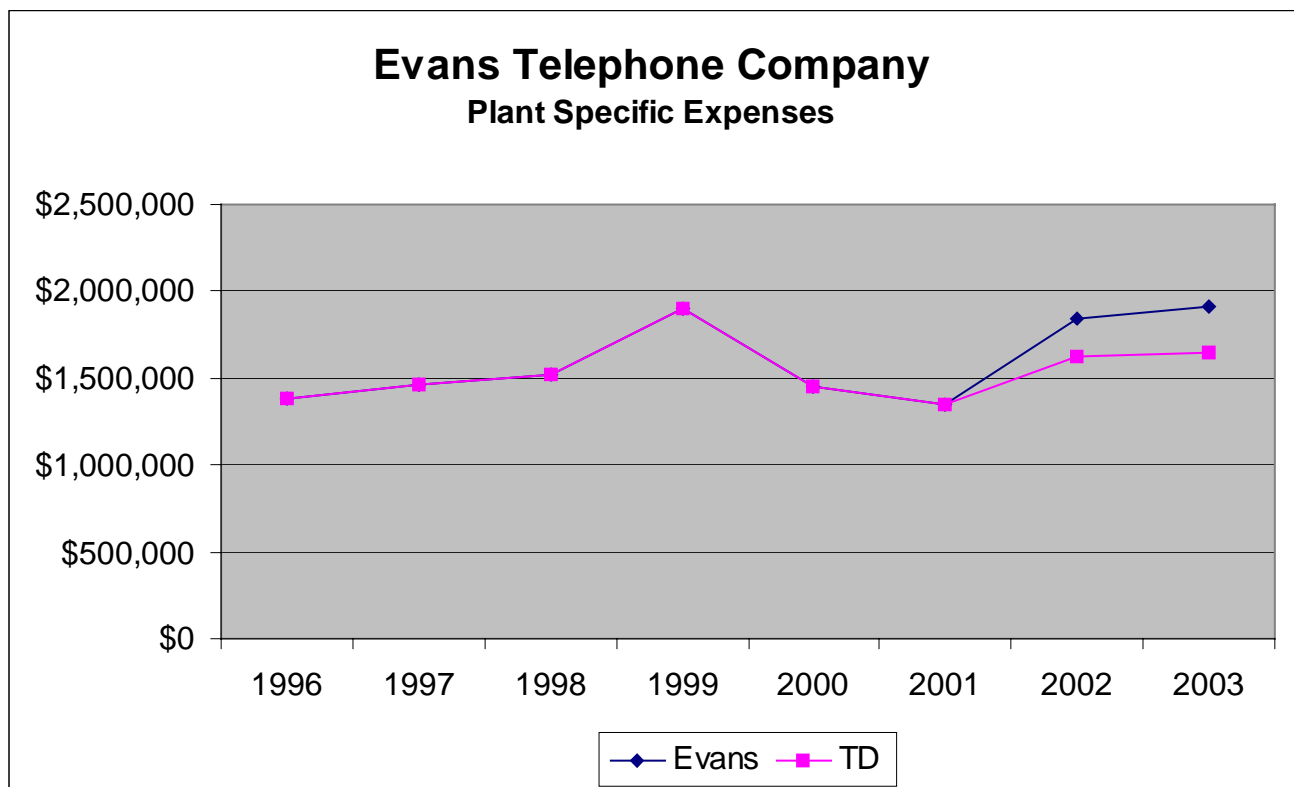
³ Form M Schedule I-1 (FCC Armis 43-02 Report Format) of Evans's Annual Reports for 1999, 2000 and 2001.

⁴ TD used the Office of Ratepayers Advocates estimates of Non-Labor and Wage Escalation Factors for 2002-2004 from the March 2002 DRI-WEFA U.S. Economic Outlook as follows:

Year	Labor	Non-labor
1999	1.022	1.007
2000	1.034	1.036
2001	1.028	1.000
2002	1.016	1.000
2003	1.017	1.022

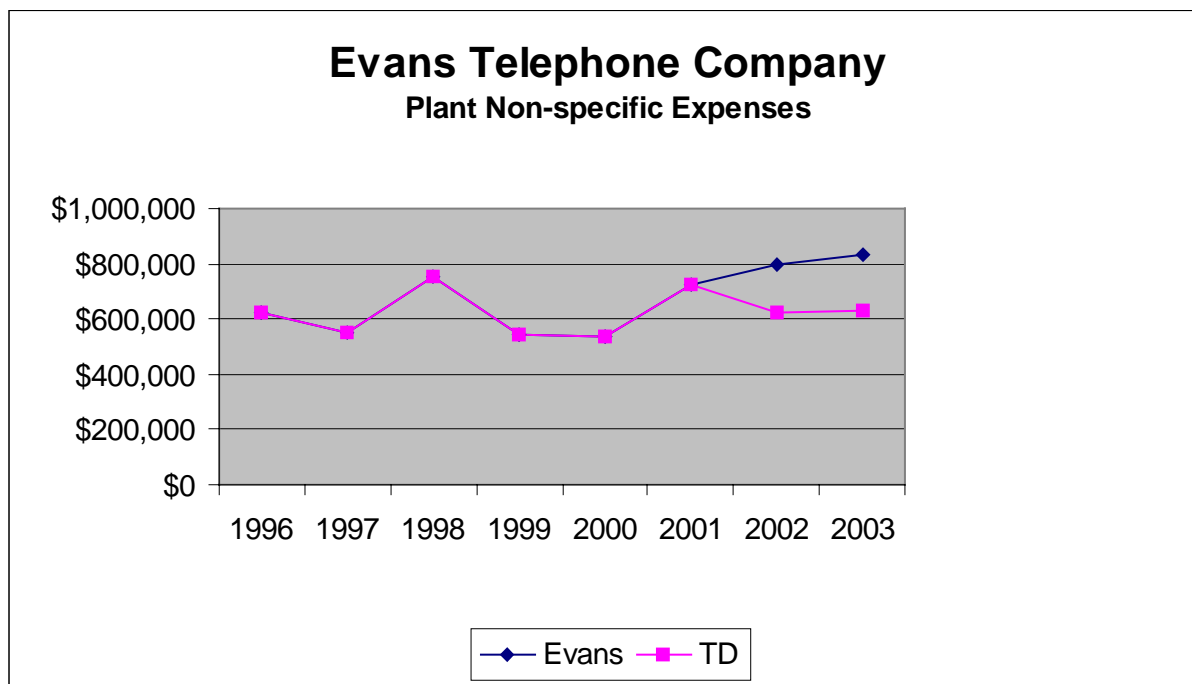
Plant Specific Expenses

Plant specific expenses include expenses related to telephone plant. These include components for motor vehicles, other vehicles, land and building, furniture and expenses related to cable wiring and central office equipment. TD's estimates for Plant Specific expenses are \$1,621,600 for 2002 and \$1,652,900 for 2003. Evan's estimates for the two years are \$1,843,447 for 2002 and \$1,916,539 for 2003. The graph below illustrates the estimates for all components of the plant specific expense accounts.



Plant Non-Specific Expenses

Plant Non-Specific expenses include such expenses as those related to network administration, testing, engineering access to the network and power. TD's estimates for Plant Non-Specific expense are \$621,200 for 2002 and \$632,700 for 2003. Evan's estimates for the two years are \$794,307 for 2002 and \$834,024 for 2003. The graph below shows the estimates for all components of the plant non-specific expenses.



Customer Operations Expense

Customer operation expense includes expenses related to call completion services, number services, customer services, customer billing and carrier access billing. TD's estimates for customer operations expense are \$1,252,100 for 2002 and \$1,263,100 for 2003. Evan's estimates for 2002 and 2003 are \$1,601,458 and \$1,674,404, respectively.

Carrier access billing expense showed a substantial increase for 2001. In response to a TD data request, Evans reported that the expense for this function was recorded in the general and administrative and information management expense in prior years. The amounts were removed from those corporate expense categories and transferred to the carrier access billing expense category. The amount transferred in 2001 was \$124,902.70 from information management and \$23,500 from general and administrative. In addition, Evans reported that there were additional amounts related to three customer service representatives for the period 2000 to 2003. TD did not include this additional

amount in the customer operations expense for the new employees because TD believes the Customer Operations estimation method applied provides a reasonable estimate of the total expense.

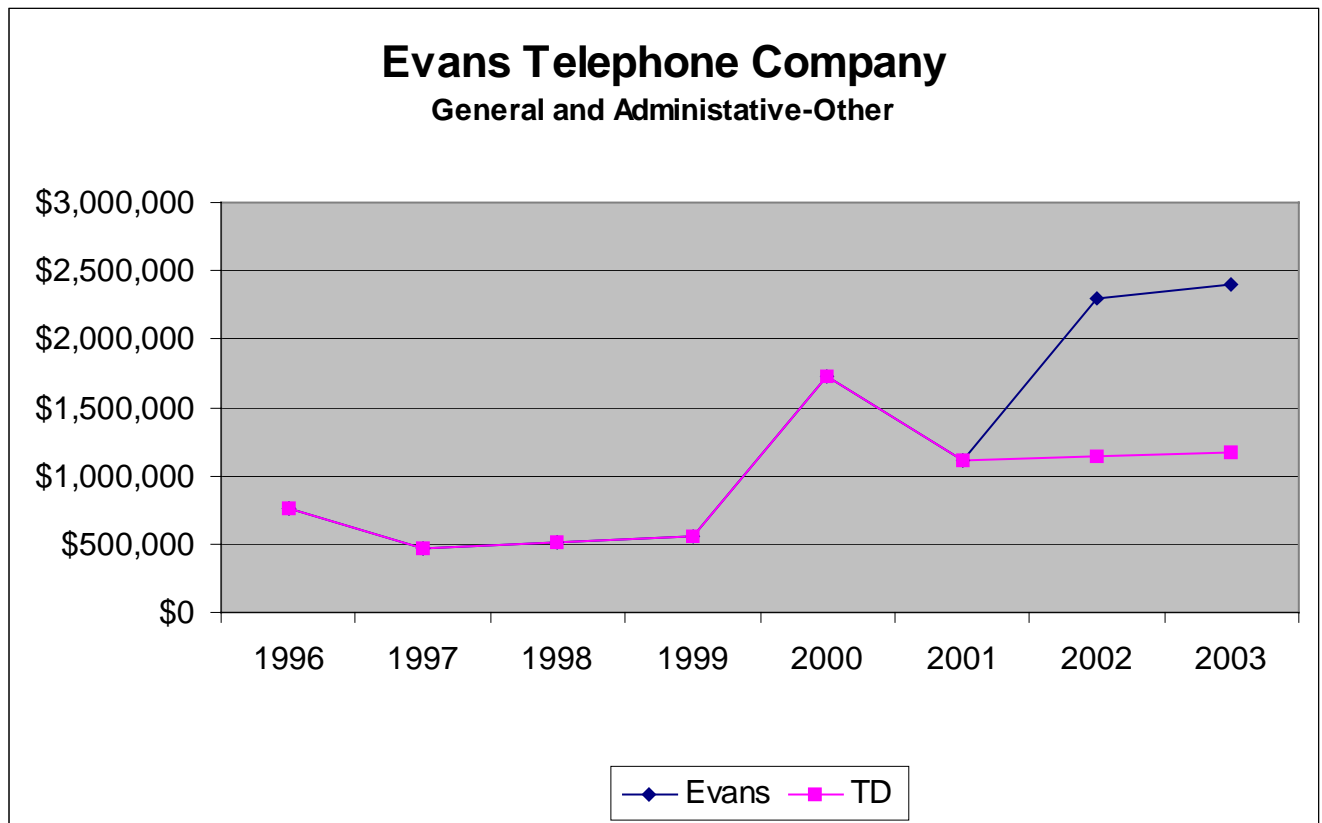
Corporate Operations Expense

The corporate operations expense includes five categories of expenses. They are Executive and Planning, General and Administrative, Accounting & Financial, Human Resources and Information Management. The corporate operations expense has shown a significant increase in expense levels even though some of the expenses were, as described above, transferred from the corporate operations expense to the customer operations expense.

TD's corporate expense estimate for 2002 and 2003 are \$3,057,500 and \$3,117,800, respectively. Evans' corresponding estimates are \$4,249,820 for 2002 and \$4,454,705 for 2003. There are significant differences in the estimate of corporate expense for the years 2002 and 2003. After an analysis of each component of each expense category in the corporate expense, the major difference is in General and Administrative Expense, Other component. The other component includes expense-other than salaries and benefits.

The following graph shows the Other component of the General and Administrative account. The purchase of Evans by Country Road resulted in a very significant increase in General and Administrative expenses over the historical levels. Subsequent to the purchase by Country Road, the local management has remained essentially the same with the people performing the same management and administrative functions. The only difference is the change in ownership.

The purchase by Country Road should not have resulted in an increase in operating expenses since Decision (D.) 01-06-84, Appendix A, Adopted Condition 2 stated: "Evans Telephone shall not increase rates for its customers due to any increase in costs brought about by its acquisition by Country Road and Evans Holdings." Because of this condition, TD recommends that the additional general and administrative expenses attributed to the acquisition of Evans by Country Road should be disallowed.



On September 4, 2002, TD requested specific information on Evans corporate fees for 1999 through 2003. The written response dated September 11, 2002 states that “during 1999 and 2000 the expenditures relate primarily to the Evans Family corporate operation expense. There was less involvement of the Evans Family related to the detailed operations of the company, for 2001, 2002 & 2003 the expenditures relate to Country Road Communications.” Evans also stated that, “Country Roads Communications provides greater day to day involvement in the operations of the company and is much more analytical.”

However, as stated in Appendix E, Adopted Condition 3 of D 01-06-084, “Evans Telephone shall manage its finances on a stand-alone basis, independent of Country Road, CRC Communications of California, and other affiliates. “ Clearly, to have so much money charged by Country Road for functions that have been sufficiently provided in the past by Evans’ own staff is unnecessary.

The customers of Evans should pay for administrative and general expenses that are required for the operation of the company and not for additional layers of management and for expenses related to the strict reporting requirements of the banks and lenders that are required because of the debt level of its parent corporation.

Depreciation

Both TD and Evans applied the same depreciation rates to average plant in service. The significant differences in the depreciation estimates are due to several items. Evans had initially planned to retire some switching equipment in 2001 for \$2,100,000; however the equipment was not retired. Also in 2001, the depreciation accrual for General Purpose Computers was \$22,521 while the recorded amount in Evans' annual report for 2001 was \$212,520. Therefore TD used the recorded number from the annual report. The \$212,520 figure closely matched the depreciation accrual calculated from the depreciation rate for that account. TD's total depreciation estimate is \$24,734,600, an increase of \$2,636,950 over Evans' estimate of \$22,097,651 for the test year.

Depreciation Reserve

Evans supplied workpapers showing the historical development of its test year depreciation reserve. In the workpapers, the accruals and retirements were often lumped together with other debits and credits. TD separated the accrual and retirement from the amount recorded and entered the excess as an adjustment. The historical depreciation reserve was not changed.

For 2002 and 2003, Evans included a cost of removal along with retirements. On inquiry, Evans stated that the cost of removal was based on a historical relationship between retirements and cost of removal. TD's analysis showed that for the test year Evans' cost of removal was a constant 97.4% of the estimated retirement and this figure was applied to all retirements regardless of the type of plant and the need for removal. Retired computers, licensed vehicles and underground cable each had associated with it a 97.4% cost of removal. Because the historical records did not show any relationship for cost of removal for retired plant, TD removed these amounts. Evans estimated the cost of removal for 2002 at \$355,240 and for 2003 the amount was \$326,146. For 2001 the recorded cost of removal was \$2,976 even though Evans estimated some substantial retirements including \$2,100,000 for switch equipment. TD estimated the cost of removal at \$800 for 2002 and \$1,200 for 2003.

Taxes

The differences in tax estimates are due to variations in Evans' and TD's estimates of income, revenue and expense. TD and Evans each used a Corporate State Franchise Tax (CCFT) rate of 8.84% and a federal income tax rate of 34.00%. The interest deduction for Evans was originally a nominal amount for each year calculated at 5% of the total debt. Subsequently Evans provided an amortization schedule for debt of \$1,750,000 and the interest calculated in the amortization was used in the TD income tax calculations. TD's estimates for Total Company Federal and State taxes are \$1,691,125 and \$482,330 respectively for the test year.

Rate Base

Evans' estimate of average plant-in-service for test year 2003 is \$37,724,333. TD lowered Evans' total company telephone-plant-in-service estimate by 17.30% to \$31,200,040. This difference of \$6,524,293 is the result of two adjustments by TD to Evans' estimate as described below:

TD's first adjustment to plant-in-service was to reinstate \$2,100,000 of digital switch equipment that had been scheduled for retirement in 2001. Evans informed TD that the equipment would remain in use and therefore should be included in current plant estimates.

The second adjustment of \$7,474,900 TD applied to plant-in-service is due to the conditions of sale set forth in Adopted Condition 7 of Appendix A in D. 01-06-084 (see Appendix E) in which the Commission stated that, "Country Road shall invest approximately \$11 million in network infrastructure for Evans Telephone over the next five years...without increasing local rates".

In response to a TD data request Evans made the following statement in writing on May 9, 2002 regarding its compliance with D. 01-06-084, "Capital expenditures for 2002-2003 are projected to be...\$9.7 million in the first two years after the sale to Country Road. With these capital budgets, Country Road is well on the way to complying with the requirement in Decision 01-06-084..."

To fulfill the requirements set forth in D. 01-06-084, TD removed for ratemaking purposes Evans' capital expenditures for 2002-2003. This was done because a) Evans identified these amounts as a portion of the required \$11 million investment and b) including the estimated plant additions for 2002-2003 would directly result in a rate increase that is specifically prohibited by D. 01-06-084. Therefore, TD removed Evans' capital expenditures for 2002-2003 from rate base. However, all standard expenses associated with the plant additions remain. After 2003, Evans will have three years to invest the remaining balance of the \$11 million dollar requirement.

In estimating its test year Rate Base, Evans included Construction Work in Progress (CWIP). TD excluded CWIP in the computation of its rate base estimate, because the utility, not the ratepayers, should shoulder the costs of construction until the project is used and useful. Evans, therefore, should not be allowed to earn a return on any plant or facility under construction until it becomes operational and is placed into service.

Evans used 0.69% of the average plant balance in determining its test year total company materials and supplies estimate of \$259,444. Based on the recorded ratio of materials and supplies expense to plant in service for the past five years 1997-2001, TD

finds Evans estimates for this item to be unqualified. TD estimates a materials and supplies expense of \$166,302 for the 2003 test year. TD's estimate is based on a five year recorded average of 0.43% of average plant balance for the years 1997-2001.

TD estimates Evans 2003 test year working cash requirement to be \$664,102. This is \$196,886 lower than that estimated by Evans. This difference is due to TD's lower operating expense and higher revenue estimates.

Separations

Evans provides both intrastate and interstate telecommunications services, subject to the regulation of the CPUC and FCC, respectively. Because Evans' property serves both jurisdictions, the utility's revenues, expenses, taxes, investments, and reserves are allocated between interstate and intrastate services.

Separations is the process of apportioning a telephone company's property costs, related reserves, operating expenses and taxes, and revenues between the state and interstate jurisdictions. It is a vehicle by which a telephone company can separately identify the amount of expenses, investments and revenues associated with the production of a given service. These apportionments are made on the basis of relative usage and direct assignment whenever possible. The costs to be apportioned are identified in the FCC Part 36 separations manual, according to the classification of accounts as prescribed by the FCC's Part 32, Uniform System of Accounts (USOA) for Telecommunications Companies.

Evans used separation factors based on its 2000 cost studies. TD reviewed Evans' separation factors and finds them to be reasonable. Therefore, TD used the separation factors provided by the company to separate its estimates of total company expenses and plant to derive TD's estimate of Evans' intrastate results of operations.

Appendix B compares Evans and TD interstate and intrastate results of operations for test year 2003 using these separation factors.

Cost of Capital

Evans requests an overall intrastate rate of return of 10.00%, the rate of return authorized by the Commission for Evans in 1997 by Resolution T-16007.

The Return on Equity for all rural ILECs should be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar. However, as a matter of practice, Decision D.97-04-036 in A.95-12-073⁵ adopted an 'overall' rate of return of

⁵ In D. 97-04-036 the Commission authorized California-Oregon Telephone Company a 10.00% return on rate base for its 1997 test year as requested in A. 95-12-073 (California-Oregon's 1997 General Rate Case application).

10.00% for all rural ILECs. Based on information provided, TD recommends that the Commission approve Evans' request for an overall rate of return of 10.00% at this time. This approval should not set a precedent for any future or pending small ILEC GRC proceeding.

Net-to-Gross Multiplier

The net-to-gross multiplier indicates the unit change in gross revenues required to produce a unit change in net revenues. Appendix D shows TD's computation of Evans' net-to-gross multiplier. The net-to-gross multiplier of 1.66208 means that a change of \$1,662 in gross revenue would be required to produce a change of \$1,000 in net revenue. For Evans, based on an adopted state rate base of \$5,205,147 and an adopted rate of return of 10%, the adopted intrastate revenue requirement change required is \$3,611,119.

CHCF-A Support

In 2002, Evans' draw from the CHCF-A was \$3,466,455.

Appendix C shows Evans' intrastate results of operations using the 10.00% intrastate rate of return.

For test year 2003, TD 's computation of Evans' CHCF-A requirement is \$16,199 based on TD's projected revenues, expenses, rate base and overall intrastate rate of return.

Comments

The draft resolution of the Telecommunications Division on this matter was mailed to the parties in accordance with PU Code Section 311 (g)(1).

Commission approval is based on the specifics of this Advice Letter and does not establish a precedent for the contents of any future filings by small ILECs.

Findings

1. Evans filed its GRC on December 19, 2001, with a Test Year of 2003 in compliance with Decision No.01-05-031.
2. Evans requests the following for test year 2003:
 - No change in its rate or charges,

- An intrastate rate of return of 10.00%, the same return granted to them in its last GRC filing in 1997, and
 - An increase in its CHCF-A draw for 2003 over 2002 of \$160,863 for a 2003 CHCF-A support of \$3,627,318.
3. The Telecommunications Division recommends the following for Evans for test year 2003:
- A total intrastate rate base amount of \$5,205,147; and
 - An Intrastate Rate of Return of 10.00%.
 - A California High Cost Fund-A (CHCF-A) support of \$16,199 representing a reduction of \$3,611,119 from Evan's CHCF-A 2003 support estimate;
 - A revenue requirement reduction of \$3,611,119;
4. The differences in the estimates of Evans and TD result from the use of different methodologies for estimating revenue, expenses, and rate base.
5. We find TD's methodology in estimating revenues reasonable. We therefore, adopt TD's recommended intrastate revenues as shown in Appendix C.
6. We accept TD's recommended overall rate of return of 10.00% for Evans.
7. We find Evans' Depreciation Study previously approved by the Commission, as part of its 1997 rate case is acceptable for ratemaking purposes for the test year 2003.
8. We find TD's recommended reduction of CHCF-A support for Evans for 2003 acceptable. The reduction in CHCF-A support is based on our adoption of TD's Intrastate Results of Operations for Evans for test year 2003.

THEREFORE, IT IS ORDERED that:

1. The intrastate revenues, expenses, and rate base amounts for test year 2003 identified in Appendix C are adopted for The Evans Telephone Company.
 2. The overall intrastate rate of return of 10.00% is adopted for Evans.
 3. Evans' CHCF-A draw for 2003 is \$16,119.
 4. Evans' depreciation study is adopted.
- This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 16, 2003. The following Commissioners approved it:

WESLEY M. FRANKLIN
Executive Director

APPENDIX A

EVANS TELEPHONE COMPANY TOTAL COMPANY RESULTS OF OPERATIONS PRESENT RATES TEST YEAR 2003

	Evans	Staff	Utility Exceed Staff Estimate Amount	Percentage
OPERATING REVENUES				
Local Revenues	3,978,263	4,422,586	(444,323)	-11.17
CHCF-A	3,627,318	3,627,318	0	0.00
Intrastate:				
InterLATA Access Revenues	1,716,279	1,446,020	270,259	15.75
LATA Toll Revenues	1,921,527	2,382,117	(460,590)	-23.97
Interstate:				
Access Revenues	3,381,527	3,344,276	37,251	1.10
Miscellaneous Revenues	342,519	352,513	(9,994)	-2.92
Less: Uncollectibles	-95,712	-67,880	(27,832)	29.08
Total	14,871,721	15,506,950	(635,229)	-4.27
OPERATING EXPENSES				
Plant Specific	1,916,538	1,652,900	263,638	13.76
Plant Non-Spec. (less Depreciation)	834,024	632,700	201,324	24.14
Customer Operations	1,674,404	1,263,100	411,304	24.56
Corporate Operations	4,454,705	3,117,800	1,336,905	30.01
Subtotal	8,879,671	6,666,500	2,213,171	24.92
Depreciation & Amortization	3,044,009	3,201,100	(157,091)	-5.16
Taxes Other Than on Income	165,319	76,424	88,895	53.77
State Income Tax	238,258	482,330	(244,072)	-102.44
Federal Income Tax	835,368	1,691,125	(855,757)	-102.44
Total	4,282,954	5,450,979	(1,168,025)	-27.27
Net Revenues	1,709,096	3,389,471	(1,680,375)	-98.32
RATE BASE				
2001 - Property, Plant & Equipment	37,724,333	31,200,040	6,524,293	17.29
2002 - Property Held for Future Use	0	0	0	0.00
2003 - Tel. Plant Under Const. ST	358,237	0	358,237	100.00
2004 - Tel. Plant Under Const. LT	0	0	0	0.00
1220 - Materials and Supplies	259,444	166,302	93,142	35.90
- Working Cash	860,988	664,102	196,886	22.87
Less: Depreciation	-22,097,651	-24,734,600	2,636,949	-11.93
Less: Deferred Tax & Customer CIAC	-573,458	-573,500	42	-0.01
Total	16,531,893	6,722,344	9,809,549	59.34
Rate of Return	10.34%	50.42%		

APPENDIX B

EVANS TELEPHONE COMPANY
SEPARATED RESULTS OF OPERATIONS AT PRESENT RATES
TEST YEAR 2003

	Evans		TD			
	Total Company	Interstate	Intrastate	Total Company	Interstate	Total Intrastate
OPERATING REVENUES						
Local Revenues	3,978,263		3,978,263	4,422,586		4,422,586
CHCF-A	3,627,318		3,627,318	3,627,318		3,627,318
Intrastate:						
InterLATA Access Revenues	1,716,279		1,716,279	1,446,020		1,446,020
LATA Toll Revenues	1,921,527		1,921,527	2,382,117		2,382,117
Interstate:						
Access Revenues	3,381,527	3,275,821	105,706	3,344,276	3,275,821	68,455
Miscellaneous Revenues	342,519		342,519	352,513		352,513
Less: Uncollectibles	(95,712)		(95,712)	(67,880)		(67,880)
Total	14,871,721	3,275,821	11,595,900	15,506,950	3,275,821	12,231,129
OPERATING EXPENSES						
Plant Specific	1,916,538	428,423	1,488,115	1,652,900	369,489	1,283,411
Plant Non-Spec. (less Depreciation)	834,024	189,996	644,028	632,700	144,133	488,567
Customer Operations	1,674,404	317,132	1,357,272	1,263,100	239,231	1,023,869
Corporate Operations	4,454,705	893,234	3,561,471	3,117,800	625,166	2,492,634
Subtotal	8,879,671	1,828,785	7,050,886	6,666,500	1,378,019	5,288,481
Depreciation & Amortization	3,044,009	702,885	2,341,124	3,201,100	739,160	2,461,940
Taxes Other Than on Income	165,319	38,003	127,316	76,424	17,570	58,854
State Income Tax	238,258	60,657	177,601	482,330	98,702	383,628
Federal Income Tax	835,368	212,673	622,695	1,691,125	346,066	1,345,059
Total	4,282,954	1,014,218	3,268,736	5,450,979	1,201,497	4,249,482
Net Revenues	1,709,096	432,818	1,276,278	3,389,471	696,305	2,693,166
RATE BASE						
2001 - Property, Plant & Equipment	37,724,333	8,672,078	29,052,255	31,200,040	7,172,889	24,027,151
2002 - Property Held for Future Use	0	0	0	0	0	0
2003 - Tel. Plant Under Constr. ST	358,237	82,352	275,885	0	0	0
2004 - Tel. Plant Under Constr. LT	0	0	0	0	0	0
1220 - Materials and Supplies	259,444	61,772	197,672	166,302	39,597	126,705
- Working Cash	860,988	197,924	663,064	664,102	152,677	511,425
Less: Depreciation	(22,097,651)	(5,106,813)	(16,990,838)	(24,734,600)	(5,716,166)	(19,018,434)
Less: Deferred Tax & Customer CIAC	(573,458)	(131,827)	(441,631)	(573,500)	(131,800)	(441,700)
Total	16,531,893	3,775,486	12,756,407	6,722,344	1,517,197	5,205,147
Rate of Return	10.34%	11.46%	10.00%	50.42%	45.89%	51.74%

APPENDIX C

THE EVANS TELEPHONE COMPANY
INTRASTATE RESULTS OF OPERATIONS AT ADOPTED RATE OF RETURN
TEST YEAR 2003

	Evans Proposed	TD Proposed	Utility Exceed Staff Amount	Percentage	Adopted
OPERATING REVENUES					
Local Revenues	3,978,263	4,422,586	(444,323)	(11.17)	4,422,586
CHCF-A	3,627,318	16,199	3,611,119	99.55	16,199
Intrastate:					
InterLATA Access Revenues	1,716,279	1,446,020	270,259	15.75	1,446,020
LATA Toll Revenues	1,921,527	2,382,117	(460,590)	(23.97)	2,382,117
Interstate:					
Access Revenues	105,706	68,455	37,251	35.24	68,455
Miscellaneous Revenues	342,519	352,513	(9,994)	(2.92)	352,513
Less: Uncollectibles	(95,712)	(67,880)	(27,832)	29.08	(67,880)
Total	11,595,900	8,620,010	3,063,444	26.22	8,620,010
OPERATING EXPENSES					
Plant Specific	1,488,115	1,283,411	204,704	13.76	1,283,411
Plant Non-Spec. (less Dprn)	644,028	488,567	155,461	24.14	488,567
Customer Operations	1,357,272	1,023,869	333,403	24.56	1,023,869
Corporate Operations	3,561,471	2,492,634	1,068,837	30.01	2,492,634
Subtotal	7,050,886	5,288,481	1,762,405	25.00	5,288,481
Depreciation & Amortization	2,341,124	2,461,940	(120,816)	(5.16)	2,461,940
Taxes Other Than on Income	127,316	58,854	68,462	53.77	58,854
State Income Tax	177,601	64,407	113,194	63.74	64,407
Federal Income Tax	622,695	225,819	396,876	63.74	225,819
Total	3,268,736	2,811,020	457,716	14.00	2,811,020
Net Revenues	1,276,278	520,515	755,769	59.22	520,515
RATE BASE					
2001 - Property, Plant & Equipment	29,052,255	24,027,151	5,025,104	17.30	24,027,151
2002 - Property Held for Future Use	0	0	0	0.00	0
2003 - Tel. Plant Under Const ST	275,885	0	275,885	100.00	0
2004 - Tel. Plant Under Const LT	0	0	0	0.00	0
1220 - Materials and Supplies	197,672	126,705	70,967	35.90	126,705
- Working Cash	663,064	511,425	151,639	22.87	511,425
Less: Depreciation	(16,990,838)	(19,018,434)	2,027,596	(11.93)	(19,018,434)
Less: Deferred Tax & Customer CIAC	(441,631)	(441,700)	69	(0.02)	(441,700)
Total	12,756,407	5,205,147	7,551,260	59.20	5,205,147
Rate of Return	10.00%	10.00%			10.00%

APPENDIX D

THE EVANS TELEPHONE COMPANY
NET-TO-GROSS MULTIPLIER
TEST YEAR 2003

1 Gross Revenue	1.00000
2 Uncollectibles*	/
3 Net Revenue	1.00000
Corporate State Franchise Tax Rate (CCFT) at 8.84% (tax rate times line 4 3)	0.08840
5 Federal Taxable Income at 34% (line 3 less line 4)	0.91160
6 Federal Income Tax (tax rate time line 5)	0.30994
7 Net Income (line 5 less line 6)	0.60166
8 Net-to-Gross Multiplier (line 1 divided by line 7)	1.66208

Intrastate Revenue Requirement

9 Adopted State Rate Base	5,205,147
10 Adopted Rate of Return at 10.00% (line 9 times 10.00%)	520,515
11 Net Revenues at Present Rates	2,693,166
12 Net Revenue at Adopted Rates	520,515
13 Change in Net Revenues (line 10 less line 11)	(2,172,651)
14 Total Intrastate Revenue Requirement Change (line 13 times line 8)	(3,611,119)

CHCF-A Support

15 2003 CHCF-A Support at Present Rates	3,627,318
16 2003 CHCF-A Support Adopted	16,199

*Uncollectibles are included in line 1, Gross Revenue

APPENDIX E
ADOPTED CONDITIONS

(Decision 01-06-084)

The authority granted by this decision is contingent upon the following conditions:

1. Evans Telephone shall not sell any assets used or useful in the provision of its regulated services to satisfy debt obligations incurred by Country Road or Evans Holdings to finance the acquisition of the Evans Telephone or Evans Communications.
2. Evans Telephone shall not increase rates for its customers due to any increase in costs brought about by its acquisition by Country Road and Evans Holdings.
3. Evans Telephone shall manage its finances on a stand-alone basis, independent of Country Road, CRC Communications of California, and other affiliates.
4. Country Road and Evans Holdings shall provide Evans Telephone with sufficient equity capital to maintain a reasonable and balanced capital structure and to provide service to the public that is safe, reliable, and in compliance with all applicable statutes and Commission orders.
5. Evans Telephone shall comply with all existing and future affiliate rules and reporting requirements.
6. Evans Telephone shall not pay a dividend, loan money, or provide any other forms of capital to Country Road, Evans Holdings, or other affiliates if doing so would jeopardize the utility's ability to provide reliable service at reasonable rates.
7. Country Road shall invest approximately \$11 million in network infrastructure for Evans Telephone over the next five years and increase the offering of broadband and other services to Evans Telephone customers, over current levels, without increasing local rates.

(END OF APPENDIX E)